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DE RUEHGB #0894/01 0851607  
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R 251607Z MAR 08  
FM AMEMBASSY BAGHDAD  
TO RUEHC/SECSTATE WASHDC 6416  
INFO RUCNRAQ/IRAQ COLLECTIVE  
RUCPDOG/DEPT OF COMMERCE WASHDC

C O N F I D E N T I A L SECTION 01 OF 02 BAGHDAD 000894

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STATE FOR NEA/I AND EEB

E.O. 12958: DECL: 03/19/2018

TAGS: [ECON](#) [EFIN](#) [PGOV](#) [IZ](#)

SUBJECT: WARKA BANK REQUESTS U.S. CORRESPONDENT BANKING  
RELATIONSHIPS

Classified By: Economic Minister Charles P. Ries for reasons 1.4 (d)

11. (U) This cable contains an action request, see para 8.

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Summary  
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12. (C) Mohammed Kemal Issa, Deputy Managing Director for International Affairs at Warka Bank, asked EMIN during a March 7 meeting for our help in encouraging U.S. banks to form correspondent banking relationships with Warka. He highlighted a number of Warka's successes, including an aggressive expansion campaign to increase the number of branches located throughout Iraq from more than 80 to more than 100 by the end of 2008. In spite of the murky legal and regulatory environment in Iraq, Warka Bank has and continues to offer a full range of banking products and services. Issa also highlighted that Warka acts as an intermediary between contractors and ministries by providing performance guarantees. He promised to provide additional information on this potentially useful independent indicator for the Government of Iraq's budget execution performance. End Summary.

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Warka's Achievements  
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13. (C) Issa opened the 60-minute meeting by listing a number of Warka's achievements since its establishment in 1999. He stated that Warka currently has correspondent relationships with 26 foreign banks, mostly located in the region but ranging from western Europe to China. Having adopted an aggressive expansion policy, Issa claimed that Warka would have 100 branches throughout all of Iraq by the end of 2008. Moreover, Warka would open the first branch of a private Iraqi bank beyond Iraq's borders in Beirut by the end of March 2008. According to Issa, Warka Bank currently has over 50,000 clients, of whom 10,000 reside outside of Iraq.

14. (C) When asked about the recent Council of Ministers order that all government letters of credit (L/Cs) worth USD 2 million or less should be diverted for processing from the Trade Bank of Iraq (TBI) to private banks, Issa indicated that Warka Bank was generally unimpressed by the measure. Due primarily to the low profitability for processing, public sector L/Cs are not a focus for Warka. Issa did highlight that Warka was providing L/Cs for the private sector, however, without requiring the customary for Iraq 100 percent collateral.

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Performance Bonds Potentially Illuminating

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15. (C) Issa commented that part of Warka Bank's business stems from acting as an intermediary between ministries and contractors by issuing a form of performance bond for reconstruction projects. Issa explained that the bank would lend contractors initial capital and issue a guarantee that the contracting ministry would keep in its records. The ministry would release additional tranches of funds to the contractor should satisfactory progress on the project ensue. Issa said that the Legal and Credit Departments at Warka cooperate with line ministries to monitor project performance. Moreover, he added, fees charged by Warka to the contractors for the guarantees ensure profitability for both the bank and the contractor because contract amounts are typically extremely generous. At EMIN's request, Issa promised to provide recent data on Warka's guarantee business, which should help confirm or refute our information on GoI budget execution.

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U.S. Correspondent Relationships Wanted  
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16. (C) EMIN asked what assistance the U.S. could provide to the private banking sector in Iraq. Issa requested our assistance in encouraging U.S. banks to form correspondent relationships with their Iraqi counterparts. He complained that U.S. banks maintain a double standard by willingly profiting from Iraqi banks by facilitating transfers with other foreign banks who in turn use their own U.S. correspondent relationships. "Why not open direct correspondent relationships to improve efficiency for all parties," he asked. Furthermore, once such relationships are established, the USG's ability to monitor Iraqi transactions

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will increase considerably, Issa added.

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Comment and Bio Note  
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17. (C) Mohammed Kemal Issa is representative of a new generation of Iraqi entrepreneurs. The son of a former Iraqi diplomat who served in Washington, Pakistan, and Australia, Issa was educated overseas and subsequently has no difficulty interacting with Western audiences. Issa remarks with an unmistakable sense of pride that Warka Bank does not participate in the Iraq Private Bankers Association, claiming that until the group adopts an innovative approach to doing business, it (and other private banks) will languish. Still, his request for U.S. assistance to acquire U.S. correspondent relationships is a refrain we have heard from numerous Iraqi private bankers. Issa's wife and child are resident in Amman. He speaks English fluently. End Comment and Bio Note.

18. (U) Action Request: Embassy requests guidance from Washington agencies on what actions could be taken to encourage U.S. banks to establish correspondent relationships with private Iraqi banks such as Warka.  
CROCKER